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No. 07-659 (3)

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In the Supreme Court of the United States

PHOENIX OF BROWARD, INC.,

Petitioner,

v.

MCDONALD'S CORPORATION,

Respondent.

On Petition for a Writ of Certiorari to the United States Court of Appeals for the Eleventh Circuit

REPLY BRIEF FOR THE PETITIONER

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Respondent's efforts to obfuscate the clear and stark conflict this case presents are unavailing. Respondent does not even acknowledge the fact that the decision below charted the circuits' disarray. See Pet. App. 14a-20a. Though respondent is quick to point out (Br. in Opp. 20-21) that petitioner *urged* the court of appeals to hold that direct competitors alleging a competitive injury automatically satisfy the multifactor test set forth in *Conte Bros. Automotive* v. *Quaker State-Slick 50*, 165 F.3d 221 (3d Cir. 1998), the court of appeals expressly *rejected* that effort to harmonize the two standards. See Pet. App. 19a-20a. The court of appeals thus acknowledged widespread conflict on this issue and concluded that it could not (or should not) be defused.

Respondent retreats to the position that five circuits simply did not mean what they said when they held that, "to have standing for a [Lanham Act] false advertising claim, the plaintiff must be a competitor of the defendant and allege a competitive injury." *Telecom Int'l Am., Ltd.* v. *AT&T*, 280 F.3d 175, 197 (2d Cir. 2001) (citation omitted); see also pp. 4-5, *infra* (collecting cases). But respondent cannot point to a single decision by the Second, Third, Seventh, Ninth, or Tenth Circuits in which a direct competitor has been denied prudential standing to bring a false advertising claim under the Lanham Act (much less one in which those courts of appeals have even purported to apply the multifactor *Conte Bros.* analysis to such a claim). And, even as respondent casually (and erroneously) dismisses those circuits' repeated pronouncements as mere *dicta*, it selectively plucks a single sentence from *Conte Bros.* as evidence that then-Judge Alito's opinion purported to establish a definitive standing test for direct competitors'

claims. It did not. Read with even the slightest attention to context, that decision plainly meant to *expand* standing to encompass certain claims by *non-direct competitors*. That is why, as respondent concedes (Br. in Opp. 18), the Third Circuit has never applied it to a direct-competitor case in the nearly ten years since it was decided.

Respondent ultimately resorts to the claim that this case is so "unusual" or "anomalous" as not to warrant this Court's review. Br. in Opp. 9, 23-24, 26-28. Nothing could be further from the truth. Here, the owner of a Burger King restaurant alleged that McDonald's—its archrival—knowingly engaged in false advertising designed to lure the former's customers to the latter's restaurants. There is nothing "atypical" (Br. in Opp. 26) about such a Lanham Act claim. Finally, respondent's claim that this Court should decline review because "the issue of whether the parties are genuinely 'direct competitors' was not litigated below" (Br. in Opp. 24) is simply astounding. The notion that a fact that was required by law to be deemed true (see Fed. R. Civ. P. 12(b)(6)), was not disputed below, and that respondent concedes it "does not contest" before this Court (Br. in Opp. 24) is somehow an obstacle to review makes no sense—particularly because dismissal on standing grounds necessarily precedes full litigation of such controversies.

I. THE COURTS OF APPEALS ARE DIVIDED

Respondent concedes that "some circuits have, in the past, articulated a relatively rigid and categorical approach to prudential standing under the Lanham Act," Br. in Opp. 7, but respondent nevertheless

insists that the Eleventh Circuit's adoption of the multifactor *Conte Bros.* analysis presents no conflict. Respondent is wrong.

A. Most obviously, respondent is at a loss to explain why the court of appeals expressly recognized that adopting the *Conte Bros.* standard furthered a circuit conflict on this issue. Pet. App. 12a-20a. Indeed, respondent quotes liberally from the court of appeals' opinion (Br. in Opp. 5-7, 23), but omits any mention of that court's repeated references to the widespread confusion among the circuits. See, *e.g.*, Pet. App. 12a n.2, 14a, 16a, 18a n.5. Although the decision below was somewhat imprecise in describing the conflict (see Pet. 17-19 & nn.6-7), it correctly observed that the circuits are in disarray. Respondent does not even mention the court's analysis, much less explain how it could be fairly characterized as heralding an "emerging consensus" in favor of the *Conte Bros.* test for direct-competitor plaintiffs. Br. in Opp. 10.

That omission is particularly striking because the court of appeals observed that the *Conte Bros.* standard represented a significant departure from the categorical approach, and expressly refused to hold that the tests were functionally indistinguishable when applied to direct competitors. Pet. App. 19a-20a. To the contrary, it held that a "direct competitor" with a "competitive" injury—the standing requirements of the categorical circuits—would not satisfy the multifactor test. *Id.* at 19a. Respondent makes no attempt to reconcile that holding with its assertion that no conflict exists.

Nor does respondent answer other courts' acknowledgment that there is confusion among the circuits. See *American Ass'n of Orthodontists* v.

Yellow Book USA, 434 F.3d 1100, 1103-1104 (8th Cir. 2006) ("[A] number of circuits have held, *categorically*, that false advertising claims * * * are actionable only 'when brought by competitors of the wrongdoer,'" while "[o]ther circuits have adopted a less categorical multi-factor test.") (citation omitted) (emphasis added); *Renaissance Leasing, LLC* v. *Vermeer Mfg.*, 2006 WL 1447032, at *3 (W.D. Mo. May 23, 2006) ("Under the categorical approach, adopted by the Second, Seventh and Tenth Circuits, to have standing to assert a Lanham false advertising claim, 'the plaintiff must be a competitor of the defendant and allege a competitive injury.'") (citation omitted). Remarkably, respondent appears to suggest that the Eighth Circuit's decision in *American Association of Orthodontists* (Br. in Opp. 11 n.1) supports its claim that the *Conte Bros.* test is "garnering an emerging consensus" among the circuits (*id.* at 10). But that court expressly noted the existence of divergent standards; it did not (as respondent would have it) imply that the circuits are moving toward uniformity.

B. Respondent does not dispute that five circuits—the Second, Third, Seventh, Ninth, and Tenth—have consistently stated that the Lanham Act's prudential standing requirements are satisfied when suit is "brought by competitors of the wrongdoer" alleging a competitive injury. *Waits* v. *Frito-Lay*, 978 F.2d 1093, 1109 (9th Cir. 1993); see also, *e.g.*, *Telecom Int'l Am., Ltd.* v. *AT&T*, 280 F.3d 175, 197 (2d Cir. 2001) ("[T]o have standing for a [Lanham Act] false advertising claim, the plaintiff must be a competitor of the defendant and allege a competitive injury.") (internal quotation marks and citation omitted); *Joint Stock Soc'y* v. *UDV N. Am.*,

266 F.3d 164, 180 (3d Cir. 2001) ("Section 43(a) is intended to provide a private remedy to a commercial plaintiff who[se] * * * commercial interests have been harmed by a competitor's false advertising.") (internal citations omitted); *L.S. Heath & Son* v. *AT&T Info. Sys.*, 9 F.3d 561, 575 (7th Cir. 1993) ("In order to have standing to allege a false advertising claim * * * the plaintiff must assert a discernible competitive injury."); *Jack Russell Terrier Network of N. Cal.* v. *American Kennel Club*, 407 F.3d 1027, 1037 (9th Cir. 2005) ("[A] plaintiff must show * * * that the injury is 'competitive,' or harmful to the plaintiff's ability to compete with the defendant."); *Stanfield* v. *Osborne Indus.*, 52 F.3d 867, 873 (10th Cir. 1995) ("[T]o have standing for a false advertising claim, the plaintiff must be a competitor of the defendant and allege a competitive injury.").

Respondent claims that those repeated pronouncements are mere "*dicta*" (Br. in Opp. 13) and that those circuits stand ready to deny prudential standing to direct competitors alleging a competitive injury. But respondent fails to identify a single instance where a direct competitor with a competitive injury has been denied prudential standing by the Second, Third, Seventh, Ninth, or Tenth Circuit. That is because (not surprisingly) the categorical circuits correctly take prior decisions at their word and adhere to those repeated statements. It should come as no surprise, then, that the only two circuits that have imported the *Conte Bros.* test for direct competitors' claims had not expressly adopted the "categorical" rule. If there is any "logical fallacy" here (Br. in Opp. 13), it is respondent's belief that the categorical circuits will soon line up to adopt the *Conte Bros.* analysis. In the nearly ten years since

Conte Bros. was decided, not a single "categorical" circuit has adopted it, nor have any of those circuits denied standing to a direct competitor asserting a competitive injury.[1]

What is more, respondent casually disregards the numerous cases in which direct competitors have brought Lanham Act cases in these circuits without any suggestion that they were subject to a multifactor standing test.[2] Br. in Opp. 19. But many jurisdictions permit courts to raise prudential standing questions *sua sponte*. See, *e.g.*, *MainStreet Org. of Realtors* v. *Calumet City*, 505 F.3d 742, 749 (7th Cir. 2007) (dismissing a claim for lack of prudential standing after raising the issue *sua sponte*);

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[1] Of course, respondent does not identify any decision by the categorical circuits characterizing their prior decisions as "*dicta*." To the contrary, at least one circuit—the Ninth—has expressly rejected an invitation to disavow its prior statements. In *Barrus* v. *Sylvania*, 55 F.3d 468 (9th Cir. 1995), the court confirmed that *Waits*—which respondent specifically dismisses as "*dicta*" (Br. in Opp. 14)—"*fully analyzed* the standing requirements under [Section 43(a) of the Lanham Act]," 55 F.3d at 469 (emphasis added), and further held that "[t]he discussion of false advertising in *Waits* was not mere dicta," *id.* at 470.

[2] See, *e.g.*, *Newcal Indus.* v. *Ikon Office Solutions*, 2008 WL 185520 (9th Cir. Jan. 23, 2008); *L. & J.G. Stickley* v. *Cosser*, 2007 WL 4171651 (2d Cir. Nov. 27, 2007); *Playtex Prods.* v. *Procter & Gamble Co.*, 126 Fed. App'x 32 (2d Cir. 2005); *Peaceable Planet* v. *Ty, Inc.*, 362 F.3d 986 (7th Cir. 2004); *Research Sys. Corp.* v. *IPSOS Publicite*, 276 F.3d 914 (7th Cir. 2002); *S.C. Johnson & Son* v. *Clorox Co.*, 241 F.3d 232 (2d Cir. 2001); *First Health Group Corp.* v. *BCE Emergis Corp.*, 269 F.3d 800 (7th Cir. 2001); *Hot Wax* v. *Turtle Wax*, 191 F.3d 813, (7th Cir. 1999); *Cottrell, Ltd.* v. *Biotrol Int'l*, 191 F.3d 1248 (10th Cir. 1999); *Southland Sod Farms* v. *Stover Seed Co.*, 108 F.3d 1134 (9th Cir. 1997).

Addiction Specialists v. *Township of Hampton*, 411 F.3d 399, 405 (3d Cir. 2005) (raising prudential standing *sua sponte*); *Thompson* v. *County of Franklin*, 15 F.3d 245, 248 (2d Cir. 1994) ("[W]e are required to address [a standing] issue * * * even if the parties fail to raise the issue before us. Our obligation, moreover, extends to the prudential rules of standing.") (alteration in original) (citations omitted). The fact that none of the "categorical" circuits has ever even questioned—much less denied—standing to a direct competitor alleging a competitive injury speaks volumes.

One such instance is particularly telling. As everyone agrees (Pet. 24; Br. in Opp. 10-11), the Fifth Circuit imported the *Conte Bros.* test for direct competitors' claims in *Procter & Gamble Co.* v. *Amway*, 242 F.3d 539 (5th Cir. 2001). The very same facts at issue in that case gave rise to parallel litigation in the District of Utah. *Procter & Gamble Co.* v. *Haugen*, No. 1:95-cv-00094-TS. The Utah case involved the very same plaintiffs and at least seven of the same defendants (including the parties alleged to be principally responsible for the false advertising). Even *after* the Fifth Circuit held in 2001 that plaintiffs were subject to the *Conte Bros.* test and therefore lacked standing, 242 F.3d. at 564, plaintiffs continued to pursue their claims in the Utah case, where the Tenth Circuit's "categorical" rule governs. Indeed, in 2007, the Utah plaintiffs prevailed at trial on their Lanham Act claim, recovering a verdict of $19.25 million against the very same defendants who six years earlier had prevailed in the Fifth Circuit on standing grounds. *Procter & Gamble Co.* v. *Haugen*, No. 1:95-cv-00094-TS, Dkt. 1145. As we noted (Pet. 24 n.10), these dramatically divergent results are a

direct consequence of the circuits' conflicting standards. Respondent does not even mention the Utah litigation, much less attempt to explain or defend this discrepancy.

C. Respondent's attempt to read the Third Circuit's *Conte Bros.* decision as establishing a standing test for direct competitors' claims is unavailing. For starters, the plaintiffs there had expressly conceded that "the parties are not in direct competition." 165 F.3d at 236.[3] Nor can the single sentence of the court's opinion respondent extracts bear such weight. Read in context, the court's refusal to rely on "the label placed on the relationship between the parties" plainly refers to the plaintiff's belated assertion that the parties "were 'competitors' in some *limited* sense." *Id.* at 235 (emphasis added); see also *ibid.* ("*nominally* competitive relationship" would not suffice) (emphasis added). Here, by contrast, it is undisputed that the parties are in *direct* competition and that the false advertising caused a *competitive* injury. Significantly, respondent concedes that the Third Circuit has never applied *Conte Bros.* to a direct-competitor claim. Br. in Opp. 11, 18. And, in *Warner-Lambert Co.* v. *BreathAsure, Inc.*, 204 F.3d 87 (3d Cir. 2000), that court reaffirmed its view that it "require[s] a more substantial showing where the plaintiff's products are not *obviously* in competition with defendant's products." *Id.* at 95 (quoting *Ortho Pharm. Corp.* v. *Cosprophar, Inc.*, 32 F.3d 690, 694 (2d Cir. 1994)). In any event, if *Conte Bros.* applies to direct competitors,

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[3] By respondent's logic, that fact alone makes any statement regarding direct competitors mere dicta. See Br. in Opp. 14-16 (arguing that circuits' statement of the categorical rule were dicta because some involved non-direct competitors).

it is still in conflict with the categorical circuits, and this Court's intervention is no less warranted.

II. REVIEW IS NECESSARY TO VINDICATE THE LANHAM ACT'S CORE PURPOSES, AND THIS CASE PRESENTS NO VEHICLE PROBLEM

A. Respondent acknowledges that "the fundamental question underlying the concept of prudential standing [is] whether the claimant is the 'proper plaintiff' to bring the claim." Br. in Opp. 4. Respondent further acknowledges that "the direct competitors of the defendants" are "genuinely 'prototypical' plaintiffs" under the Lanham Act. Br. in Opp. 21. Respondent nonetheless argues that a direct competitor alleging a competitive injury lacks prudential standing unless it passes the multifactor *Conte Bros.* test. That turns the essential purpose of the Lanham Act—"to protect the public from deceit [and] to foster fair competition," S. Rep. No. 1333, 79th Cong., 2d Sess. 4 (1946)—on its head.

Respondent asserts (without foundation) that petitioner will find it difficult "to prove" that McDonald's false advertising diverted its customers. Br. in Opp. 27.[4] But that is why we have trials before factfinders. Such considerations run to the merits of the case and should have no bearing on prudential

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[4] Petitioner brought this suit as a proposed class action on behalf of all Burger King restaurant owners. Pet. 8. Respondent does not dispute that the false advertising campaign produced an "unnatural spike in sales" (Pet. App. 59a) and that Burger King was its primary competitor (*id.* at 57a). It requires no speculation to suppose that McDonald's reaped those rewards at the expense of its chief rival.

standing analysis when a "prototypical" plaintiff has brought suit.[5]

B. Respondent hopes to depict this case as so far outside the norm as to warrant the bizarre result reached below, but that attempt cannot withstand even casual scrutiny. There is nothing "unusual" about the owner of a Burger King restaurant alleging that false advertising by McDonald's violates the Lanham Act. Notably, respondent does not contest that the fiercely competitive fast-food industry relies heavily on customer promotions to entice customers away from rival restaurants. See Pet. 5-6. And it is utterly beside the point that respondent's "'advertising became false or misleading due to the *felonious conduct* of *third* parties.'" Br. in Opp. 27 (quoting Pet. App. 42a). What matters most for present purposes is that respondent continued to promise customers that they had a "fair and equal" chance to win highly attractive prizes when (as respondent knew) they had no chance at all. In any event, as the district court correctly noted (Pet. App. 42a), false advertising is a strict-liability tort under

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[5] Contrary to respondent's suggestion (Br. in Opp. 27), *Holmes* v. *SIPC*, 503 U.S. 258 (1992), does not encourage courts to deny standing to prototypical plaintiffs based on doubts about their ultimate ability to establish proximate cause. The Court there addressed whether the plaintiff had properly stated a securities fraud claim under RICO, not (as respondent claims) whether there was "standing to sue under the Clayton Act." Br. in Opp. 27. In any event, that decision is perfectly consistent with categorically affording standing to direct competitors under the Lanham Act, because the Court conducted that analysis only *after* noting that the plaintiff admitted that it was asserting only "the rights of customers who *never* purchased manipulated securities." 503 U.S. at 270-271 (emphasis added).

the Lanham Act, so respondent's claimed good faith is irrelevant.

Finally, there is no merit to respondent's assertion that this Court should await a case in which "the issue of whether the parties are genuinely 'direct competitors'" has been "litigated below." Br. in Opp. 24. Respondent does not dispute that petitioner adequately pleaded that it was respondent's direct competitor, which is all that Fed. R. Civ. P. 12(b)(6) requires. Nor does respondent suggest that it challenged petitioner's status as a direct competitor in the district court or in the court of appeals. And respondent concedes that it "does not contest" that fact here. Br. in Opp. 24. The suggestion that a fact that is completely undisputed before this Court somehow presents an obstacle to review is baseless. In any event, dismissal on prudential standing grounds is necessarily preliminary to the litigation of any such controversies. The legal issue presented here was fully developed below, and this case presents an ideal opportunity for the Court to resolve it.

CONCLUSION

The petition for a writ of certiorari should be granted.

Respectfully submitted.

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